

Report to the Council on the audit of
Wellington City Council
LTP for the period 1 July 2012 to 30 June 2022

Management report

Audit New Zealand has carried out this audit on behalf of the Controller and Auditor-General.

We are responsible for expressing an independent opinion on the 2012-22 long-term plan (LTP) and reporting that opinion to you. This responsibility arises from section 94(1) of the Local Government Act 2002.

We carried out the audit in accordance with the International Standard on Assurance Engagements 3000: *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*, and the Auditor-General's auditing standards. The audit cannot and should not be relied upon to detect every instance of misstatement, fraud, irregularity, or inefficiency that is not material to your LTP.

Implementing and maintaining systems of internal control for detecting these matters remains the responsibility of the Council and management.

Statement of auditor independence

We confirm that, for the audit of the Wellington City Council's LTP for the period 1 July 2012 to 30 June 2022, we have maintained our independence in accordance with the requirements of the Auditor-General, which incorporate the independence requirements of the New Zealand Institute of Chartered Accountants.

During the year we undertook a review of the Clifton Terrace Car Park managed by the Council on behalf of the New Zealand Transport Agency. Other than this report, the review of the Clifton Terrace Car Park and in conducting the annual audit, we have no relationship with or interests in the Council or any of its subsidiaries.

Unresolved disagreements

We have no unresolved disagreements with management about matters that individually or in aggregate could be significant to the LTP. Management has not sought to influence our views on matters relevant to our audit opinion.

Other relationships

We are not aware of any situations where a spouse or close relative of a staff member involved in the audit occupies a position with the Wellington City Council that is significant to the audit.

We are aware that during the 2011/12 financial year to date two employees from Audit New Zealand have accepted a position at the Wellington City Council. Their roles are not directly related to the preparation of the LTP, and we do not believe this has impacted on our audit independence.



A P Burns
Audit Director
8 August 2012

Summary report

We issued an unmodified audit opinion on Council's LTP on 27th June 2012. An unmodified audit opinion means that in our view the LTP provides:

- a reasonable basis for long term integrated decision-making by the City Council;
- for participation in that decision-making by the public; and
- a basis for subsequent accountability to the community about the activities of the City Council.

Our use of the word reasonable above is standard wording in our opinion, and is based on our assessment that:

- the plan is based on appropriate assumptions;
- it draws together the best available estimates; and
- presents that information in a balanced way.

The plan is nevertheless just that, it is a plan based on best available information which all recognise will change over time. The Council has been challenged to achieve its financial strategy to keep rates increases to an acceptable and affordable level, and at the same time address key pressures on its assets and infrastructure generated by the need for increasing levels of assets renewals, for earthquake strengthening, and the funding of its weathertight homes liability through borrowing.

The risks and challenges to the Council in meeting its commitments are appropriately disclosed in the LTP. We recognise that the Council has a track record of responding well to deal with emerging issues, and it is to the Council's credit that these issues are recognised, quantified and transparently disclosed in the LTP.

Key among these challenges are:

- **Achieving significant efficiency savings** - The LTP assumes the achievement of significant efficiency savings. We reviewed the support for the savings identified. Overall we are satisfied that the Council has the potential to achieve the level of efficiencies set out in the LTP, and uncertainty around achievement of these savings is appropriately disclosed.

The Council will need to achieve these savings just to keep pace with the expectations set in the LTP. At the moment, even after securing the levels of saving described above, the Council will still exceed its rates target in five years, and the rates limit in a further two years of the LTP. The LTP appropriately discloses that if these limits are retained, bridging the gap may involve reduced levels of service (which will be consulted on at the relevant time).

- **Maximising the effectiveness of asset renewals spending** - Minimum expected levels of asset renewals spending, particularly in the "three water" services, are

forecast to increase significantly in the medium to long term. For these services, the data which feeds the LTP is founded on 2009 detailed asset management plans, supplemented by an updated forecast renewal curve and associated recommended spending profiles completed by external advisors in late 2011. The forecast renewal curve is based on the estimated useful life of assets. The spending profile is smoothed to make it more affordable, essentially by spreading peaks and troughs in the expected work required. We satisfied ourselves as to the reliability and validity of the data used, although there is some uncertainty inherent in it.

In the final LTP, a significant portion of Council's efficiency savings are its decision to reduce asset renewals funding/spending by \$4m per year. Across the time of the plan most of this will come from infrastructure (and some from low priority water service renewals).

This means that the renewals spend (already smoothed for affordability) is further reduced as an additional 5% of assets deemed to be ready for renewal will be kept in active service slightly longer. This increases the risk of asset failure. This increased risk, and Council's mitigating actions, are appropriately disclosed in the LTP.

To maintain existing levels of service, the significant increases in core infrastructure renewals are expected to continue beyond the period of the LTP. Work is underway to improve the Council's knowledge of asset condition. This will be key to maximise the effectiveness of the renewals spend and reduce the risk of asset failure.

- **Funding any ongoing liability in respect of leaky homes** - The Council's future funding for weathertightness claims has been reduced. This reflects renewed assumptions around prevalence rates (number of potential claims), offset by higher expected spending for existing claims. We have concluded that the weathertightness provision assumptions and estimates in the plan are based on the best available information at this time, and note the inherent uncertainty in this number.

This plan sets a challenging change agenda for the Council's immediate future. It identifies some important risks which will need to be managed and monitored through the Council's risk management procedures.

We will monitor progress as part of the annual report audit, including the use of our own asset management specialists to consider and report on the proposed work being done to improve the Council's knowledge of asset condition.

Thank you

We would like to thank the Council and management for the consistent high level of support we received in performing our work. This has been a challenging time for the Council and we appreciate the transparent way in which issues were identified, addressed and reported on as the plan was developed.

Appendix 1: Audit Scope and Objectives

Audit New Zealand is appointed as auditor of Council under contract to the Office of the Auditor-General (OAG). The Auditor-General is the statutory auditor in terms of Section 15 of the Public Audit Act 2001.

The objectives of the audit of the LTP are:

- to provide an independent opinion on the LTP (under s 84(4) of the Act) about the activities of the Council in respect of:
 - the extent to which the LTP complies with the requirements of the Act;
 - the quality of the information and assumptions underlying the forecast information provided in the LTP;
- to report on matters relevant to the Council's planning systems, which come to our attention and are relevant to the Council.

Our audit involves performing procedures that examine, on a test basis, evidence supporting assumptions, amounts and other disclosures in the LTP, determining compliance with the requirements of the Act, and evaluating the overall adequacy of the presentation of information.

We also reviewed other accompanying information associated with the LTP to identify whether there are material inconsistencies with the audited LTP. In particular, we reviewed the summary of the LTP SOP for its representation of the major matters in the LTP SOP to enable general consultation with the community.

Audit New Zealand's responsibility

Audit New Zealand's responsibility is limited to expressing an opinion on the LTP. The audit opinion does not:

- provide a guarantee of absolute accuracy in the LTP;
- express an opinion on the merits of any policy content within the LTP; and
- include an opinion as to whether the forecasts will be achieved.

Responsibilities of the Council

The Council is responsible for preparing the LTP under the Act, by applying the Council's assumptions and in accordance with generally accepted accounting practice in New Zealand. The Council's responsibilities arise from section 93 of the Act. We assume that members of the Council are familiar with those responsibilities, and where necessary, have obtained advice about them.